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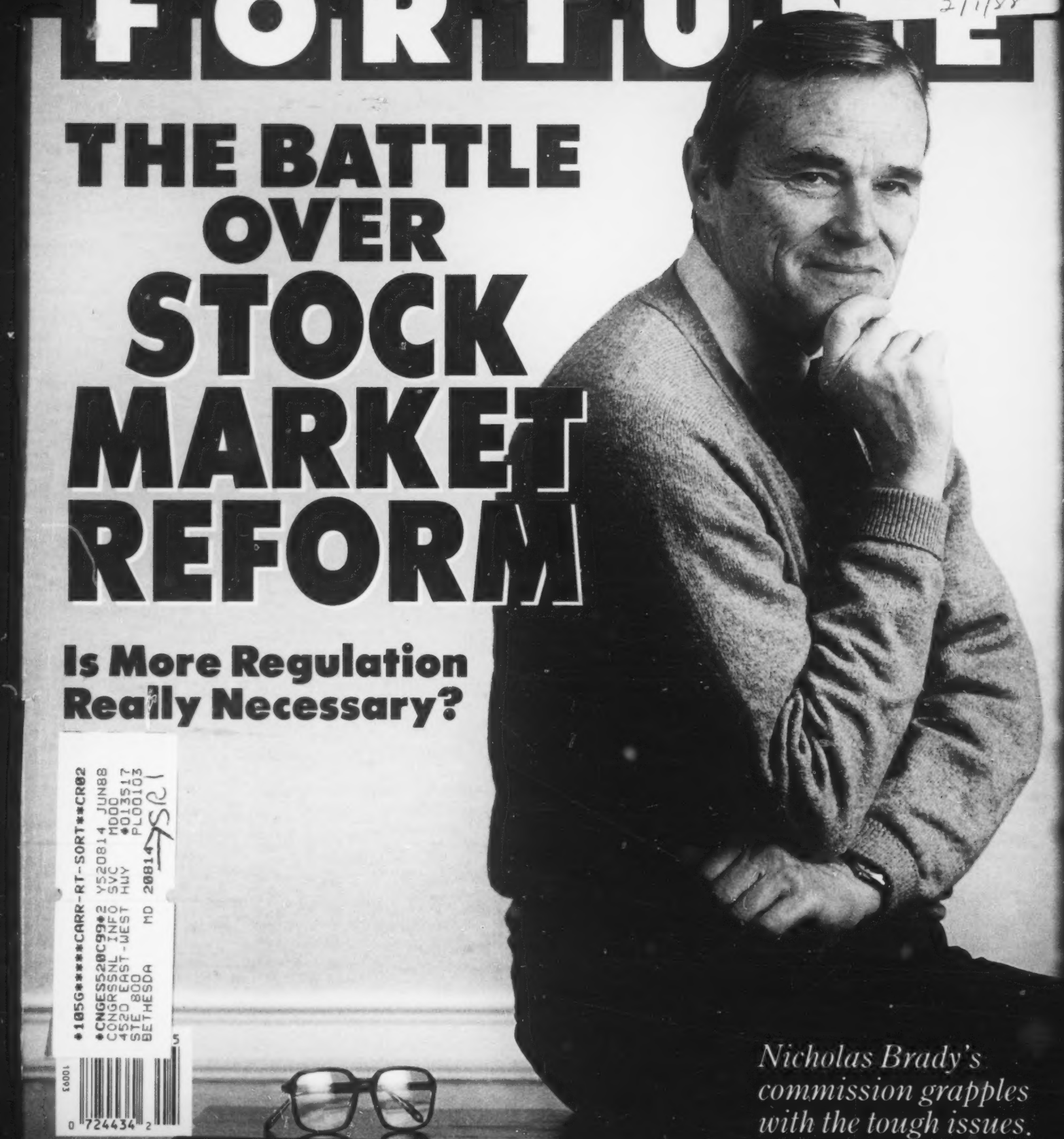
FORTUNE

THE BATTLE OVER STOCK MARKET REFORM

Is More Regulation Really Necessary?



Nicholas Brady's commission grapples with the tough issues.

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FEBRUARY 1, 1988 VOL. 117, NO. 3

FORTUNE

"Free markets eventually destroy themselves."

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Money center banks might be a wild card. "They are the most unloved [stocks] now. Look at steel a year ago."

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"You have all the resources of AT&T and yet you have a lot of freedom to do things the way a small company can."

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"As baby-boomers aged, we grew to serve them. We've become a middle-aged company along with our customers."

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"The [EEC] drive for unity is the most important thing that will happen here in the next 50 years."

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"People say that our best and brightest can compare with Japan's best and brightest. But it's simply not true."

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THE EDITOR'S DESK

JOHN ABBOTT

Dan Seligman, a.k.a. Dr. Keeping Up, relaxes in his book-lined living room.

THE HANGOVER from Black Monday's stock market bash has President Reagan's Brady Commission and other would-be exchange regulators resolving to reform. Should the country heed them and adopt new prohibitions on trading?

Searching for expert answers, associate editor Rob Norton and reporter Charles Riley spent six weeks sizing up where the markets failed, where they worked, how they've been changed by Black Monday—and how new trading rules may affect investors and the U.S. economy after the binge. Norton's sober-eyed search took him from the din of the trading pits of the Chicago Mercantile Exchange to the tranquil, ivory-towered aeries of the country's leading market historians and theoreticians. Of his timely analysis, which was edited by Julie Connelly and begins on page 18, Norton concludes, "Despite the stampede to reform markets that essentially functioned well, none of the reformers' proposals would prevent another Black Monday from happening."

MARIANNE BARCELLONA

Writer Rob Norton

Dan Seligman is an urbane, soft-voiced, unfailingly courteous colleague who transforms himself in these pages fortnightly into the curmudgeonly Dr. Keeping Up, an acerbic slayer of (mostly liberal) prig-headedness. In both personae, Super-Dan uses elegance and trenchant wit to wage his never-ending battle against fustian thinking, be it from overbearing bureaucrats, loony activists, or insufficiently rigorous colleagues.

Now, after 37 distinguished years with FORTUNE, Dan has decided to retire as our associate managing editor. But you'll be happy to hear that he has agreed to continue, as contributing editor, to write Keeping Up. Since he started his inimitable column in 1976, he has produced it for 275 consecutive regular issues. With our readers, we rejoice that Dr. Keeping Up will continue to educate, lambaste, and entertain.

Marshall Loeb

MANAGING EDITOR

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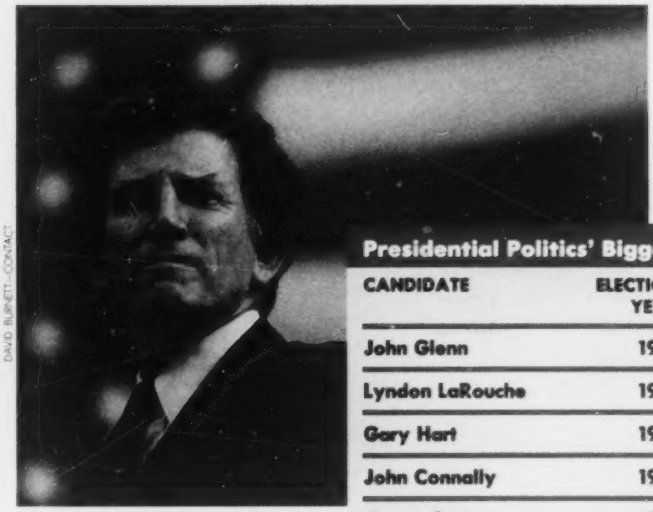
sales were up about 40% over the same period of 1986. Houston-based **U.S. Home** isn't so lucky: As interest rates fell after October 19 so did sales, and executives there aren't sure how much the crash had to do with it. In some parts of the New York metropolitan area, price increases have exceeded 20% annually but should slow down as Wall Street layoffs continue.

"Over the next six weeks we're going to see more of a consensus that 1988 is going to be a very good year for housing nationwide," says Kaufman & Broad chief Bruce Karatz. Economist Crist forecasts an 8% decline in single-family starts in 1988 because he thinks interest rates will rebound. But that doesn't necessarily mean prices will sag. Home buyers have been flocking to adjustable-rate mortgages, which are more attractive than at any time since the early 1980s; adjustable rates recently ran a huge three percentage points below fixed rates. And, says the National Association of Realtors, rising family incomes have recently helped to push the affordability of housing to a ten-year high.

I will gladly pay you Tuesday, Nov. 8 . . .

■ Should you do business with a presidential candidate? Certainly not, judging from what happened to many companies that helped out Gary Hart, John Glenn, and others in the 1984 race. The **National Bank of Washington**, Hart's biggest creditor, last summer tried auctioning off the 1984 campaign's only remaining assets—93 multicolored lithographs by artist Robert Rauschenberg. The bank is still stuck with 65 of them and will probably never see $364,000 it is still owed.



DAVID BURNETT—CONTACT

Will Gary Hart ever pay up?

A lot of companies that did business with Hart lost in 1984. He persuaded some creditors to settle for an average of 52 cents on the dollar, but others, such as **Xerox**, refused to settle and may end up getting nothing back. Reason: Even though Hart expects to get about $1 million in federal funds for his current campaign, the courts recently ruled that 1984 creditors cannot lay claim to 1988 money. The Federal Election Commission might let Hart use this year's funds to pay 1984 creditors, if he asked permission. So far he hasn't.

About repaying his debts, Hart says, "I'm going to keep after it until I get it done." But he hasn't gone after it for some time. The last significant event held by Hart to reduce 1984 debt was a $25-a-person birthday party for himself in November 1986 at a Washington disco called the Bank. The National Bank of Washington says it got all the proceeds, a whopping $6,630.

Not every candidate leaves a trail of bad debts. Ronald Reagan and Walter Mondale report no money owed from 1984. Hart's financial debacle has made the 1988 race a hassle for practically all the other candidates. They can't get credit from many companies, including **Federal Express**. Bankers are wary about lending. As for Hart's campaign—it's paying cash for virtually everything.

Presidential Politics' Biggest Debtors

CANDIDATE	ELECTION YEAR	DEBT OUTSTANDING as of 9/30/87
John Glenn	1984	$2.4 million
Lyndon LaRouche	1984	$2.3 million
Gary Hart	1984	$1.1 million
John Connally	1980	$842,000
Jimmy Carter	1980	$676,000
Alan Cranston	1984	$454,000
Edward Kennedy	1980	$82,000

SOURCE: FEDERAL ELECTION COMMISSION

Man without a country? Save up.

■ Nathan Hale died for it. Now you can buy it: citizenship. Though civics teachers still uphold it as priceless, it can be had legally for as little as $25,000 in Belize. For only a few hundred thousand dollars countries like Canada offer qualified investors permanent residency, which carries all the advantages of citizenship except the right to vote. Surely, you say, the U.S. would never follow suit. Well, it might—and probably should.

Political malaise in Hong Kong, the Philippines, the Middle East, and other hot spots has foreign capitalists seeking havens not just for their fortunes, as in past years, but for themselves. Many would choose the U.S. but quickly discover that U.S. immigration policy does not smile on them just because of the capital they can import or the jobs their capital could create.

"Other countries, like Switzerland, take these factors into account," says Charles Foster, chairman of the American Bar Association's committee on immigration law. "Ours does not. A live-in domestic can get into the U.S. easier than a Hong Kong businessman with $10 million to invest, assuming the domestic has help from an employer."

So whither the Hong Kong businessman? Perhaps to Australia or Canada, countries that solicit his citizenship. While neither sells citizenship outright, both offer special treatment for immigrants carrying

AN INCH WORTH OF REAL ESTATE

A bit of Japan the size of this black square somewhere near Tokyo Station would cost $151. That works out to about $14,000 for a piece as big as this page. In midtown Manhattan a square inch of land averages $12.50, as it has since 1983.

STAFF *Kate Ballen, Alan Farnham, Brett Duval Fromson, Patricia Sellers*

This West German immigrant curried favor by investing in a Canadian horse farm.

The Cost of an Open Door (into selected countries)

U.S. (proposed)	**$2 million**
Australia	**$360,000**
Canada	**$190,000**
Cayman Islands	**$180,000**
Costa Rica	**$75,000**
Belize	**$25,000**

heavy luggage. In Canada, immigrants who prove they have investment skills and $250,000 (Canadian) to invest get permanent resident status. Without the money, that may be impossible.

Will the U.S. ever adopt such policies? Foster of the ABA hopes so: "All countries have considerations built into their immigration law. Given the U.S. trade balance, why not include economic ones?" Legislation being drafted by Senator Alan Simpson of Wyoming would do just that. In the latest version, a warm U.S. welcome would go out to immigrants who could put their capital to work employing ten American workers. How much capital is that, exactly? On the Hill they're discussing figures between $500,000 and $2 million.

Hungary's capitalist crusade

■ The tax man has sneaked behind the Iron Curtain and is emphatically not getting any Red carpet treatment. On January 1, Hungary became the first Soviet bloc country to impose a personal income tax on citizens. Now they also pay a value-added tax when they shop. Hungary was an early innovator in introducing market-oriented policies, and its latest package goes the furthest yet. The government is cutting subsidies to industrial companies, raising prices, and asking citizens to suffer silently as it gets control of a worrisome budget deficit and ballooning foreign debt.

Karoly Grosz, 57, who became Prime Minister last June, is the Gorbachev-style politician who wants to inject a bigger dose of capitalism into Hungary's near-stagnant economy. Will it work? Experts at the World Bank say the government's ability to hold the public's confidence will be an important factor. Anticipation of 15% price rises sparked runs on furniture, VCRs, and other products last fall, and some workers reportedly set factories ablaze when bread prices surged. Hungarian Communist Party leader Janos Kadar, 76, is yielding authority to Grosz but clearly doesn't want to end a 32-year reign on an unpopular note.

Hungary's most recent experiments in capitalism have yielded mixed results. About 20 enterprises were expected to be declared bankrupt last year, but only three were reined in because unemployment is politically taboo. The most successful industrial reform effort: **Taurus**, a large state-owned rubber products company that shut down money-losing lines and introduced performance incentives with the help of the **Boston Consulting Group**. This year Taurus's 10,000 workers are getting the opportunity to buy "profit tickets" in the company, which are something like stock without voting rights.

Grosz's plan for 1988 puts some market sense into a controlled economy, but maybe not enough. In return for losing some government subsidies, state-owned companies will get to keep a bit more of what they earn. But taxes on private businesses, the economy's most dynamic sector, will more than double to 25% of profits. Says Timothy Condon, an economist at the World Bank: "Hungary may be in danger of choking its golden goose."

Hungary's shoppers pay for reform.

Mascots again

■ Put a salt lick in the boardroom: Pegasus is back. **Mobil**'s winged horse is just one of a stable of corporate mascots making a comeback in popularity with customers and company directors. Old mascots are being revived and new ones are aborning.

James Shennan Jr., whose San Francisco design firm, **S&O Consultants**, advises companies on identity matters, says CEOs have become reluctant to adopt identities too hard edged or abstract. "United's experiment with **Allegis** really broke the camel's back," he notes, though he might better have said *brought* the camel back. Especially for marketing purposes, words and symbols that immediately evoke warmth are in high demand.

NBC welcomed back its peacock after years of flirting with a stylized N. "That N was too cold and sterile," says Elinor Selame, president of Boston's **Selame Design**. **Hartford Insurance** has rediscovered its stag, **Exxon** its tiger. Newest members of the corporate menagerie include

THE BEST AND WORST

Even with the bear on the loose last year, there were still a few profitable places to hide. ■ *by Julianne Slovak*

WHILE NO ONE was completely safe from the ursine monster in 1987, if you were in the right stocks you could have made a killing. FORTUNE's rankings of the year's best and worst performers show that reviving basic industries turned out to be surprisingly good bets. Of the top 25 stocks, more than a third were in metals or chemicals. Some of these companies had big losses only a year or two ago. No. 12 Bethlehem Steel is barely dry from the $152.7 million bath it took in 1986 on top of losses totaling $1.9 billion in the previous four years. But Bessie is out of the tub now after showing profits in four consecutive quarters. Other winners: personal computer and software makers.

If you had bought the 100 top stocks on FORTUNE's list, you would have had a 100% median return for the year—smashingly better than the market as a whole. Although the market reached intoxicating highs before the fall, by year's end it had lost virtually all those gains. The Dow Jones industrial average—representing 30 big companies on the New York Stock Exchange—was up just a smidgen, and the Nasdaq composite—mainly small stocks traded over the counter—was down 5.3%.

The lists rank issues traded on the New York Stock Exchange, the American Exchange, and the over-the-counter market. Compiled by Wilshire Associates, rankings

REPORTER ASSOCIATE *Darienne L. Dennis*

THE 100 BEST STOCKS

		STOCK PRICE 12/31		DIVIDENDS PER SHARE	TOTAL RETURN TO INVESTORS
		1986	1987		
1	**Lukens** (Coatesville, Pa.)	$14.750	$48.375	$0.680	236%
2	**Bridgford Foods** (Anaheim, Calif.)	$5.875	$18.500	$0.175	221%
3	**American Cablesystems** (Beverly, Mass.)	$14.125	$44.500	$0.000	215%
4	**Viatech** (Syosset, N.Y.)	$5.375	$16.250	$0.000	202%
5	**Compaq Computer** (Houston)	$19.250	$55.375	$0.000	188%
6	**Georgia Gulf** (Atlanta)	$19.500	$55.000	$0.400	184%
7	**Oracle Systems** (Belmont, Calif.)	$5.188	$14.500	$0.000	180%
8	**American Cellular Network** (Atlantic City)	$5.500	$15.250	$0.000	177%
9	**American Barrick Resources** (Toronto)	$7.563	$20.750	$0.050	175%
10	**North American Communications** (Hector, Minn.)	$8.750	$23.500	$0.000	169%
11	**Lone Star Technologies** (Dallas)	$6.250	$16.750	$0.000	168%
12	**Bethlehem Steel** (Bethlehem, Pa.)	$6.250	$16.750	$0.000	168%
13	**A.H. Robins** (Richmond)	$7.875	$20.500	$0.000	160%
14	**Craft House** (Toledo)	$5.714	$14.250	$0.000	149%
15	**Informix** (Menlo Park, Calif.)	$9.750	$24.250	$0.000	149%
16	**First Mississippi** (Jackson, Miss.)	$6.375	$15.375	$0.240	146%
17	**Molecular Biosystems** (San Diego)	$5.500	$13.500	$0.000	145%
18	**Newmont Gold** (New York City)	$16.625	$40.500	$0.050	144%
19	**Northwest Engineering** (Green Bay, Wis.)	$5.250	$12.750	$0.000	143%
20	**Vista Chemical** (Houston)	$18.750	$45.375	$0.100	143%
21	**Reynolds Metals** (Richmond)	$20.000	$47.625	$0.575	142%
22	**United Education & Software** (Encino, Calif.)	$5.250	$12.500	$0.000	138%
23	**Dyatron** (Birmingham, Ala.)	$5.125	$12.000	$0.000	134%
24	**Scott Cable Communications** (Irving, Texas)	$11.000	$25.750	$0.000	134%
25	**Computer Associates International** (Garden City, N.Y.)	$13.750	$32.000	$0.000	133%

ILLUSTRATIONS BY RENEE KLEIN

STOCKS OF 1987

are based on total return to investors, expressed as price appreciation plus reinvested dividends. To prevent overrepresentation of the most highly volatile OTC stocks, the lists include only companies that started the year at $5 or more per share, adjusted for splits. American depositary receipts of foreign companies and partnership units are excluded.

Nearly one-quarter of the best-performing stocks were on the Big Board, including No. 1 Lukens, a Coatesville, Pennsylvania, manufacturer of steel plate used primarily in ships, tanks, and bridges. The price of plate went up 17% last year after several mills closed and the weak dollar created greater demand for domestic supplies.

But Lukens, the oldest steel company in the U.S., was already poised to take advantage of the strong market. Six years ago the company reorganized management and began cutting costs. Says Chief Executive W. R. Wilson: "We now produce the same amount of steel with half the people." It also diversified into such new businesses as traffic safety equipment and highway signs.

SECOND PLACE GOES to Bridgford Foods, an over-the-counter issue that started the year just above FORTUNE's cutoff price and rewarded investors with a 221% total return. The Anaheim, California, company is a processor of delicatessen meats and frozen biscuits.

The bronze medal goes to prescient American Cablesystems. The Beverly, Massachusetts, cable TV operator outsmarted the bear. On October 13, the company agreed to be acquired by Continental Cablevision for $46.50 per share. The stock closed that day at $26.375, up from $14.125 on January 1. Six days later the market crashed, but the deal is expected to go through soon at the agreed price.

The 50 biggest bombs of the year had problems that went far beyond the crash. Former officials at Endotronics, a Minneapolis biotechnology company, reportedly are under investigation by the FBI and the SEC for possible accounting violations. The same officials are also being sued by shareholders. Endotronics filed for protection under Chapter 11 last March.

Worlds of Wonder, the second-biggest loser, did the same in December. It was a blue Christmas for the three-year-old maker of talking Teddy Ruxpin, Lazer Tag, and other toys. The company has been haunted by engineering snafus and spiraling costs.

So what's going to be hot in 1988? This year won't be any easier to forecast than last, and not many seers got 1987 right. Marshall Acuff, portfolio strategist at Smith Barney, suggests a wild card: money center banks. "They are the most unloved right now," he says. "Look at steel companies a year ago." Well, it's a thought.

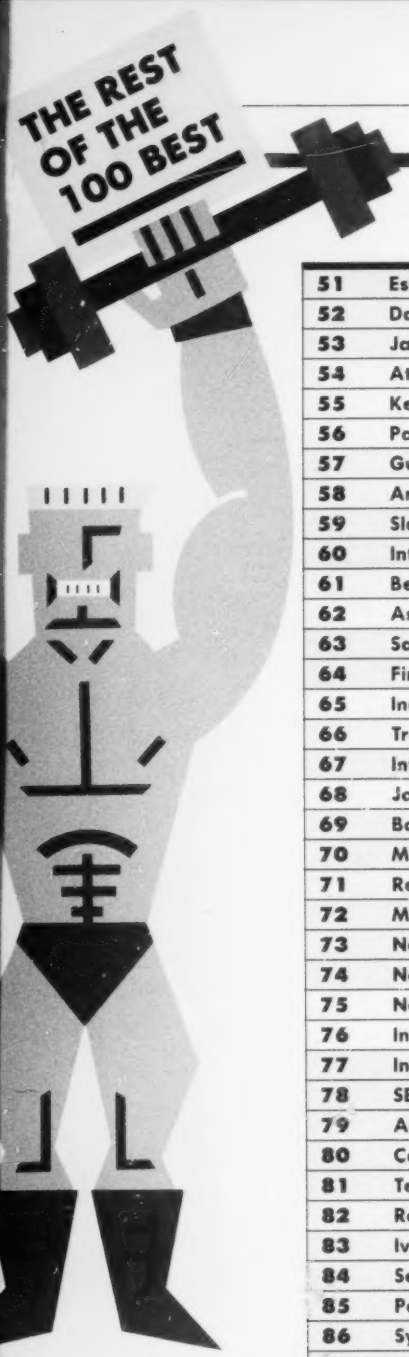
THE 100 BEST STOCKS

		STOCK PRICE 12/31		DIVIDENDS PER SHARE	TOTAL RETURN TO INVESTORS
		1986	1987		
26	**Adobe Systems** (Palo Alto, Calif.)	$12.750	$29.500	$0.000	131%
27	**Phelps Dodge** (Phoenix)	$20.750	$47.000	$0.150	127%
28	**Imo Delaval** (Lawrenceville, N.J.)	$13.625	$30.125	$0.560	126%
29	**Crown Crafts** (Calhoun, Ga.)	$6.000	$13.500	$0.000	125%
30	**Microsoft** (Redmond, Wash.)	$24.125	$54.250	$0.000	125%
31	**Armco** (Morristown, N.J.)	$5.125	$11.250	$0.000	120%
32	**Adams-Russell** (Waltham, Mass.)	$20.625	$43.000	$1.000	118%
33	**Food Lion A** (Salisbury, N.C.)	$5.563	$12.000	$0.046	117%
34	**Brockway** (Jacksonville, Fla.)	$22.000	$45.625	$0.960	112%
35	**Columbia Federal S&L** (Washington, D.C.)	$7.375	$15.500	$0.100	112%
36	**Applied Magnetics** (Goleta, Calif.)	$7.438	$15.750	$0.000	112%
37	**Precision Castparts** (Portland, Ore.)	$16.375	$34.500	$0.070	111%
38	**Xsirius Scientific** (Marina del Rey, Calif.)	$6.750	$14.250	$0.000	111%
39	**Food Lion B** (Salisbury, N.C.)	$6.125	$12.875	$0.041	111%
40	**Shorewood Packaging** (Farmingdale, N.Y.)	$5.250	$11.000	$0.000	110%
41	**Apple Computer** (Cupertino, Calif.)	$20.250	$42.000	$0.200	108%
42	**Allwaste** (Stafford, Texas)	$6.000	$12.500	$0.000	108%
43	**Echo Bay Mines** (Edmonton, Alta.)	$11.500	$23.750	$0.070	107%
44	**Western Federal S&L** (Venice, Calif.)	$16.500	$33.750	$0.300	107%
45	**Applied Materials** (Santa Clara, Calif.)	$9.500	$19.500	$0.000	105%
46	**Concord Computing** (Woburn, Mass.)	$7.000	$14.250	$0.000	104%
47	**General Binding** (Northbrook, Ill.)	$11.833	$23.500	$0.293	102%
48	**Prudential Bancorporation** (Seattle)	$13.409	$27.000	$0.000	101%
49	**TBC** (Memphis)	$5.556	$11.125	$0.000	100%
50	**Sahara Resorts** (Las Vegas)	$6.875	$13.750	$0.000	100%

NEW YORK STOCK EXCHANGE

AMERICAN STOCK EXCHANGE

OVER THE COUNTER



THE 100 BEST STOCKS

		STOCK PRICE 12/31		DIVIDENDS PER SHARE	TOTAL RETURN TO INVESTORS
		1986	1987		
51	**Essex Communications** (Greenwich, Conn.)	$8.250	$16.500	$0.000	100%
52	**Datarex Systems** (Buffalo)	$6.625	$13.125	$0.000	98%
53	**Jacobs Engineering Group** (Pasadena, Calif.)	$9.000	$17.750	$0.000	97%
54	**Atlas** (Princeton, N.J.)	$16.000	$31.500	$0.000	97%
55	**Keystone Consolidated Industries** (Dallas)	$7.125	$14.000	$0.000	96%
56	**Par Pharmaceutical** (Spring Valley, N.Y.)	$10.167	$19.875	$0.000	95%
57	**Gundle Environmental** (Houston)	$8.125	$15.875	$0.000	95%
58	**Arundel** (Baltimore)	$19.625	$38.250	$0.000	95%
59	**Slater Electric** (Glen Cove, N.Y.)	$8.250	$16.000	$0.000	94%
60	**Integrated Device Technology** (Santa Clara, Calif.)	$6.167	$11.875	$0.000	93%
61	**Beard Oil** (Oklahoma City)	$8.375	$16.125	$0.000	93%
62	**Asarco** (New York City)	$14.875	$28.500	$0.100	92%
63	**Sanford** (Bellwood, Ill.)	$13.500	$25.750	$0.000	91%
64	**First Jersey National** (Jersey City)	$43.750	$80.750	$1.800	90%
65	**Inco** (Toronto)	$11.750	$22.000	$0.200	89%
66	**Tranzonic** (Cleveland)	$8.250	$15.375	$0.230	89%
67	**Intel** (Santa Clara, Calif.)	$14.000	$26.500	$0.000	89%
68	**Jackpot Enterprises** (Las Vegas)	$6.125	$11.375	$0.150	88%
69	**Bonray Drilling** (Oklahoma City)	$8.500	$16.000	$0.000	88%
70	**MacMillan Bloedel** (Vancouver, B.C.)	$9.833	$17.625	$0.733	87%
71	**Restaurant Associates Industries** (New York City)	$7.375	$13.375	$0.300	87%
72	**Microbilt** (Atlanta)	$7.500	$14.000	$0.000	87%
73	**Neutrogena** (Los Angeles)	$25.417	$47.000	$0.310	87%
74	**Novell** (Orem, Utah)	$12.875	$24.000	$0.000	86%
75	**Newmont Mining** (New York City)	$30.750	$35.250	$35.825	86%
76	**International Minerals & Chemicals** (Northbrook, Ill.)	$26.500	$47.500	$1.000	84%
77	**Innovative Software** (Lenexa, Kans.)	$9.250	$17.000	$0.000	84%
78	**SEI** (Wayne, Pa.)	$9.250	$17.000	$0.000	84%
79	**Armor All Products** (Irvine, Calif.)	$10.750	$19.250	$0.410	83%
80	**Capitol Transamerica** (Madison, Wis.)	$6.750	$12.250	$0.100	83%
81	**Tel Offshore Trust** (Louisville, Colo.)	$5.000	$7.125	$1.932	82%
82	**Regal-Beloit** (South Beloit, Ill.)	$11.667	$20.750	$0.430	82%
83	**Iverson Technology** (McLean, Va.)	$9.333	$17.000	$0.000	82%
84	**Seaboard S&L** (Virginia Beach, Va.)	$7.500	$13.500	$0.095	82%
85	**Penwest** (Bellevue, Wash.)	$9.500	$17.250	$0.000	82%
86	**Symbol Technologies** (Bohemia, N.Y.)	$18.875	$34.250	$0.000	81%
87	**Versa Technologies** (Racine, Wis.)	$10.600	$19.000	$0.170	81%
88	**Sybra** (Atlanta)	$10.500	$19.000	$0.000	81%
89	**Acmat** (East Hartford, Conn.)	$12.500	$10.750	$16.000	81%
90	**Bolar Pharmaceutical** (Copaigue, N.Y.)	$10.813	$19.500	$0.025	81%
91	**Champion Products** (Rochester, N.Y.)	$19.313	$34.250	$0.490	80%
92	**Ballard Medical Products** (Midvale, Utah)	$5.833	$10.500	$0.000	80%
93	**Northview** (San Diego)	$11.125	$20.000	$0.000	80%
94	**Lotus Development** (Cambridge, Mass.)	$17.250	$30.750	$0.000	78%
95	**Seal** (Naugatuck, Conn.)	$5.125	$9.125	$0.000	78%
96	**Capital Federal S&L** (Sacramento, Calif.)	$9.000	$16.000	$0.000	78%
97	**Century Communications** (New Canaan, Conn.)	$10.000	$17.750	$0.000	78%
98	**St. Jude Medical** (St. Paul)	$15.000	$26.625	$0.000	78%
99	**CEM** (Matthews, N.C.)	$8.750	$15.500	$0.000	77%
100	**Golden Valley Microwave** (Edina, Minn.)	$12.000	$21.250	$0.000	77%

NEW YORK STOCK EXCHANGE

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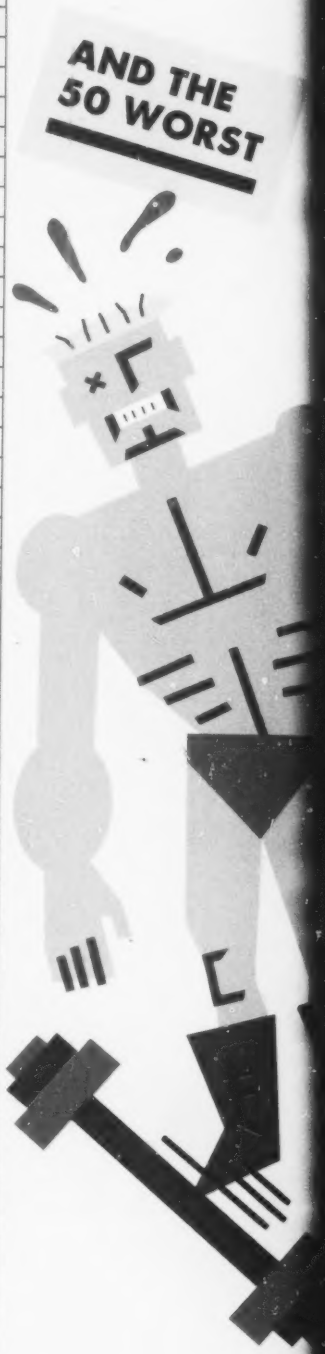
THE 50 WORST STOCKS

		STOCK PRICE 12/31		DIVIDENDS PER SHARE	TOTAL RETURN TO INVESTORS
		1986	1987		
1	**Endotronics** (Minneapolis)	$20.750	$0.375	$0.000	−98%
2	**Worlds of Wonder** (Fremont, Calif.)	$19.875	$0.625	$0.000	−97%
3	**Digital Metcom** (Central Islip, N.Y.)	$10.750	$0.375	$0.000	−97%
4	**Reuter Laboratories** (Manassas, Va.)	$5.000	$0.250	$0.000	−95%
5	**Worldgroup** (Evergreen, Colo.)	$5.000	$0.250	$0.000	−95%
6	**De Laurentiis Entertainment** (Beverly Hills, Calif.)	$12.750	$0.750	$0.000	−94%
7	**Matthews & Wright** (New York City)	$10.000	$0.625	$0.000	−94%
8	**Corporate Management Group** (Atlanta)	$6.750	$0.500	$0.000	−93%
9	**Step Saver Data Systems** (Bala Cynwyd, Pa.)	$5.000	$0.375	$0.000	−93%
10	**Cardis** (Beverly Hills, Calif.)	$7.625	$0.625	$0.000	−92%
11	**Radice** (Fort Lauderdale, Fla.)	$9.250	$0.875	$0.000	−91%
12	**Todd Shipyards** (Jersey City)	$20.500	$2.000	$0.330	−90%
13	**Community Shares** (Fond du Lac, Wis.)	$9.750	$1.000	$0.000	−90%
14	**Caribbean Select** (Tampa)	$6.000	$0.625	$0.000	−90%
15	**Southland Financial** (Irving, Texas)	$13.500	$1.500	$0.000	−89%
16	**Satellite Auction Network** (Irving, Texas)	$5.375	$0.625	$0.000	−88%
17	**Spectra Pharmaceutical Services** (Hanover, Mass.)	$5.250	$0.625	$0.000	−88%
18	**Crazy Eddie** (Brooklyn)	$11.500	$1.375	$0.000	−88%
19	**Asbestec Industries** (Pennsauken, N.J.)	$9.333	$1.125	$0.000	−88%
20	**Gemcraft** (Houston)	$7.000	$0.875	$0.000	−88%
21	**Scientific Systems** (Cambridge, Mass.)	$5.000	$0.625	$0.000	−88%
22	**Stars to Go** (Los Angeles)	$8.750	$1.125	$0.000	−87%
23	**Magnet Bank FSB** (Charleston, W. Va.)	$9.375	$1.250	$0.000	−87%
24	**Noel Industries** (New York City)	$8.250	$1.125	$0.000	−86%
25	**Bankers Note** (Smyrna, Ga.)	$10.750	$1.500	$0.000	−86%
26	**Florida Express** (Orlando, Fla.)	$7.125	$1.000	$0.000	−86%
27	**Flores de New Mexico** (Las Cruces, N.M.)	$11.750	$1.750	$0.000	−85%
28	**Financial Corp. of America** (Irvine, Calif.)	$7.500	$1.125	$0.000	−85%
29	**Bayly** (Denver)	$13.500	$2.125	$0.090	−84%
30	**Commonwealth Savings Association** (Houston)	$9.375	$1.500	$0.000	−84%
31	**Heck's** (Nitro, W. Va.)	$10.750	$1.750	$0.000	−84%
32	**Municipal Development** (New York City)	$9.000	$1.500	$0.000	−83%
33	**TS Industries** (Huntington Beach, Calif.)	$17.000	$2.875	$0.000	−83%
34	**Digitext** (Thousand Oaks, Calif.)	$8.750	$1.500	$0.000	−83%
35	**Direct Pharmaceutical** (Kansas City, Mo.)	$8.000	$1.375	$0.000	−83%
36	**Digitech** (St. Louis)	$5.750	$1.000	$0.000	−83%
37	**Gulf & Mississippi** (Columbus, Miss.)	$7.000	$1.250	$0.000	−82%
38	**Challenger International** (Hamilton, Bermuda)	$5.500	$1.000	$0.000	−82%
39	**Sporting Life** (Alexandria, Va.)	$5.500	$1.000	$0.000	−82%
40	**Bancshares National** (San Antonio)	$12.250	$2.250	$0.020	−82%
41	**J. Bildner & Sons** (Boston)	$11.250	$2.125	$0.000	−81%
42	**Peregrine Entertainment** (Los Angeles)	$9.000	$1.750	$0.000	−81%
43	**American Learning** (Chicago)	$9.000	$1.750	$0.000	−81%
44	**Defiance Precision Products** (Defiance, Ohio)	$6.250	$1.250	$0.000	−80%
45	**Telecalc** (Bellevue, Wash.)	$5.000	$1.000	$0.000	−80%
46	**Frank B. Hall** (Briarcliff Manor, N.Y.)	$14.250	$2.875	$0.000	−80%
47	**First RepublicBank** (Dallas)	$19.000	$3.750	$0.750	−80%
48	**Transnational Industries** (New York City)	$6.000	$1.250	$0.000	−79%
49	**Discovery Associates** (Encino, Calif.)	$5.375	$1.125	$0.000	−79%
50	**Viratek** (Costa Mesa, Calif.)	$63.000	$13.250	$0.000	−79%



DEALS OF THE YEAR

It took a stock market debacle to slow the frantic pace of U.S. dealmakers in 1987. Busiest were investment firms that devised new takeover defenses—such as piling up corporate debt—and arranged a slew of foreign takeovers of U.S. companies. ■ *by William E. Sheeline*

LIKE A CLOUDBURST at an outdoor auction, the stock market crash threw corporate mergers, buybacks, and financings into temporary disarray. So brisk was the activity up to Black Monday, however, that the total value of the 50 biggest deals consummated in 1987 came to $92 billion—not far from 1985's record $94.6 billion. Two groups dominated the game: the architects of leverage and British acquirers drawn across the Atlantic by the discounted dollar.

A glance at the top ten deals tells it all. Five were leveraged buyouts and three were purchases of U.S. enterprises by overseas buyers, two of them British. In only one leading deal did two American companies embrace in a merger.

Why so few friendly combinations among the natives? One reason was the overheated stock market before October 19, which pushed stock prices higher than many would-be suitors were willing to pay. Predators circled a number of big targets, however, inspiring investment banks to engineer defensive buyouts and recapitalizations. Increasingly investment firms functioned as merchant bankers, making temporary bridge loans or winding up with a piece of the company. The financial houses, says merger chief Eric Gleacher of Morgan Stanley, "could put together all elements of a deal readily. The price was high, but the cost of money was low."

Owens-Illinois, the bottle maker, went private in one of the year's first big leveraged buyouts (deal No. 3). Kohlberg Kravis Roberts played the role not of ally but of not-too-friendly pursuer. Merrill Lynch Capital Partners stepped in to take automotive parts giant Borg-Warner private (No. 2) after raider Irwin Jacobs put it in play and Samuel Heyman of GAF made a run. Morgan Stanley came to the rescue of Burlington Industries (No. 9), the target of a takeover attempt by Asher Edelman and Dominion Textile.

Many companies stayed public and independent, but only by leveraging their balance sheets to make them less enticing to the sharks. Newmont Mining eluded T. Boone Pickens after Consolidated Gold Fields increased its stake to 49.7% in a stock-buying binge. Then Newmont paid out more than $2 billion in a special dividend to stockholders (No. 11), allowing Consolidated to recoup most of its money. Harcourt Brace Jovanovich ducked Britain's publishing czar Robert Maxwell by issuing debt and passing out preferred stock and a generous dividend (No. 12). Goodyear (No. 13) and GenCorp (No. 21) both tendered for their own stock in buybacks designed to raise the proportion of debt.

Meanwhile, the Redcoats were everywhere. British Petroleum, which already controlled Standard Oil, moved quickly in April to acquire the remaining 45% of this onetime bastion of John D. Rockefeller's empire (No. 1). Unilever bought toiletry maker Chesebrough-Pond's (No. 5), and Blue Arrow, an upstart London headhunting concern, pounced on the much larger Manpower temporary help agency (No. 30). Hanson Trust swallowed Kidde (No. 17). And Hilton International, the hotel chain, finally found a home with Ladbroke Group (No. 43) after being passed from Transworld to UAL (a.k.a. Allegis) earlier in the year (No. 49).

The whole deals scene changed after Black Monday. Many players withdrew until prices settled down, but some were caught in mid-deal. The British government charged ahead with the worldwide sale of its 31.5% interest in British Petroleum, leaving the four underwriters handling the U.S. portion (No. 8) with pretax losses of $75 million to $100 million each. Southland's founding family, the Thompsons, planned to finance a buyout (No. 4) with the same kind of junk bond package that had previously found ready buyers. But the offering had to be sweetened with warrants before Goldman Sachs and Salomon Brothers could bring it to market (No. 25). The long-term financing of the Kohlberg Kravis Roberts buyout of Jim Walter (No. 10) was delayed until Drexel Burnham Lambert placed junk bonds early this year.

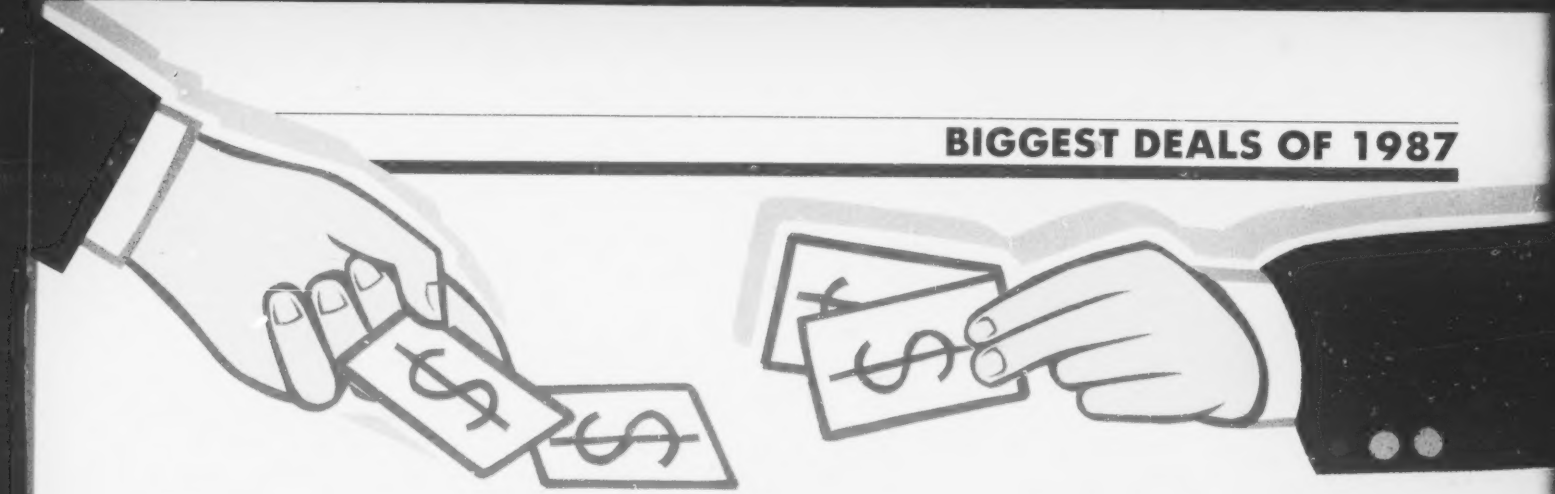
IN THE END, 1987 was not a bad year for dealmakers' fees. Public documents and other sources show that firms took in at least $516 million in advisory fees, not counting commissions for related financing. That was below 1986 but excludes a lot of undisclosed fees on privately arranged deals.

Several big transactions are already in the works for 1988. Shearson Lehman Brothers will take over E.F. Hutton, and more commercial banks will consolidate. The Shawmut Corp. will merge with Hartford National, and Philadelphia's Fidelcor will join New Jersey's First Fidelity. The outlook for dealmakers is far from bleak. A major question, says Morgan Stanley's Gleacher, is whether junk bonds will regain their lost prominence. The other question hinges on the dollar. Foreign buyers, Wall Streeters believe, will go on an even bigger binge once it stabilizes. Says Jeffrey Rosen, head of international mergers and acquisitions at First Boston: "1988 will be the year of the foreign acquirer."

REPORTER ASSOCIATE *Edward Prewitt*

ILLUSTRATIONS BY JOHN PIRMAN

BIGGEST DEALS OF 1987



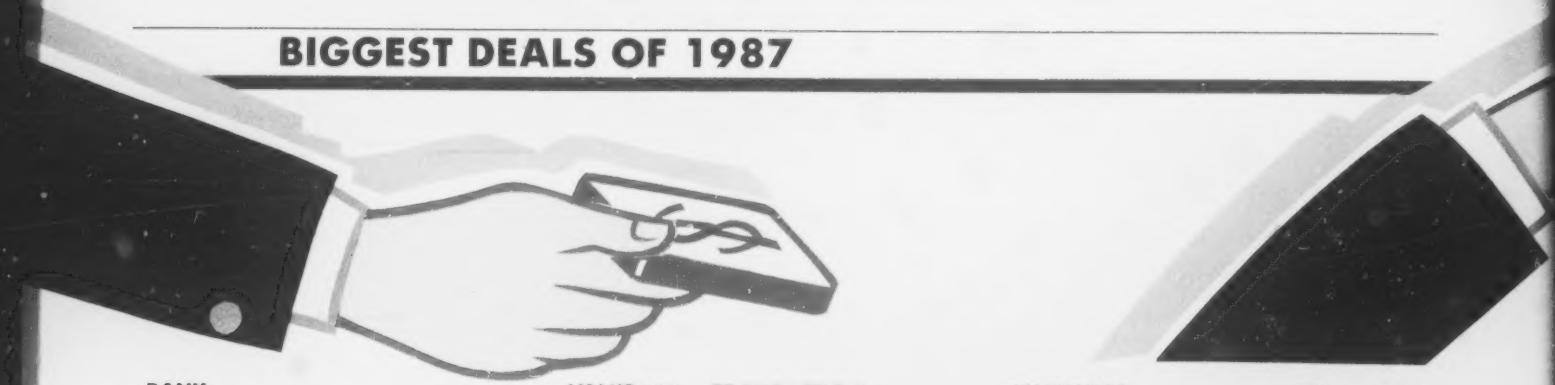
RANK	VALUE (000) / % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
1 **BRITISH PETROLEUM acquires STANDARD OIL**	**$7,995,213** 253%	**Acquisition for cash and warrants of 45% of shares not already owned by BP, June 29**	GOLDMAN SACHS (British Petroleum)	**$8,390**	.10%
			FIRST BOSTON (Standard Oil)	**$9,900**	.12%
2 **BORG-WARNER HOLDINGS**[1] **acquires BORG-WARNER** (automotive parts, chemicals)	**$4,174,579** 262%	**Leveraged buyout for cash and discount debentures, July 30**	MERRILL LYNCH CAPITAL MARKETS (Borg-Warner Holdings)	**$30,000**	.72%
			FIRST BOSTON	**$10,700**	.26%
			GOLDMAN SACHS (Borg-Warner)	**$6,715**	.16%
3 **OWENS-ILLINOIS HOLDINGS**[2] **acquires OWENS-ILLINOIS** (glass containers, plastics)	**$3,728,748** 222%	**Leveraged buyout for cash, March 24**	KOHLBERG KRAVIS ROBERTS	**$60,000**	1.61%
			MORGAN STANLEY	**$4,000**	.11%
			FIRST BOSTON (Owens-Illinois Holdings)	**$4,000**	.11%
			DILLON REED	**$4,500**	.12%
			GOLDMAN SACHS	**$4,500**	.12%
			LAZARD FRERES (Owens-Illinois)	**$4,500**	.12%
4 **JT ACQUISITION**[3] **acquires SOUTHLAND** (convenience stores, dairy products)	**$3,712,105** 215%	**Leveraged buyout for cash and preferred stock, December 15**	GOLDMAN SACHS	**$12,500**	.34%
			SALOMON BROTHERS (JT Acquisition)	**$12,500**	.34%
			LAZARD FRERES (Southland)	**$5,000**	.13%
5 **UNILEVER** (food, soap) **acquires CHESEBROUGH-POND'S** (toiletries)	**$3,096,092** 294%	**Acquisition for cash, February 10**	GOLDMAN SACHS (Unilever)	**$8,000**	.26%
			SHEARSON LEHMAN BROTHERS (Chesebrough-Pond's)	**$11,000**	.32%
6 **NATIONAL AMUSEMENTS** (movie theaters) **acquires VIACOM INTERNATIONAL** (television entertainment)	**$2,937,841** 731%	**Acquisition for cash, common and preferred stock, June 9**	MERRILL LYNCH (National Amusements)	**$7,000**	.24%
			GOLDMAN SACHS (Viacom International)	**$8,000**	.27%
7 **HOECHST** (chemicals) **acquires CELANESE** (chemicals)	**$2,885,706** 302%	**Acquisition for cash, February 27**	LAZARD FRERES (Hoechst)	**$5,000**	.17%
			FIRST BOSTON (Celanese)	**$8,000**	.28%
8 **BRITISH GOVERNMENT sells American Depositary Shares of BRITISH PETROLEUM**	**$2,549,654** 156%	**U.S. portion of the British government's sale of its 31.5% interest in British Petroleum, October 30**	GOLDMAN SACHS* MORGAN STANLEY SALOMON BROTHERS SHEARSON LEHMAN BROTHERS	**$30,306**	1.19%
9 **BURLINGTON HOLDINGS**[4] **acquires BURLINGTON INDUSTRIES** (textiles)	**$2,497,667** 218%	**Leveraged buyout for cash, September 3**	MORGAN STANLEY (Burlington Holdings)	**$30,600**	1.23%
			FIRST BOSTON	**$6,900**	.28%
			KIDDER PEABODY (Burlington Industries)	**$6,900**	.28%

Mergers and acquisitions

Securities offerings and buybacks

* Lead manager.
[1] Group led by Merrill Lynch Capital Partners.
[2] Group led by Kohlberg Kravis Roberts.
[3] Group formed by the Thompson family, Southland founders.
[4] Group led by Morgan Stanley.

BIGGEST DEALS OF 1987

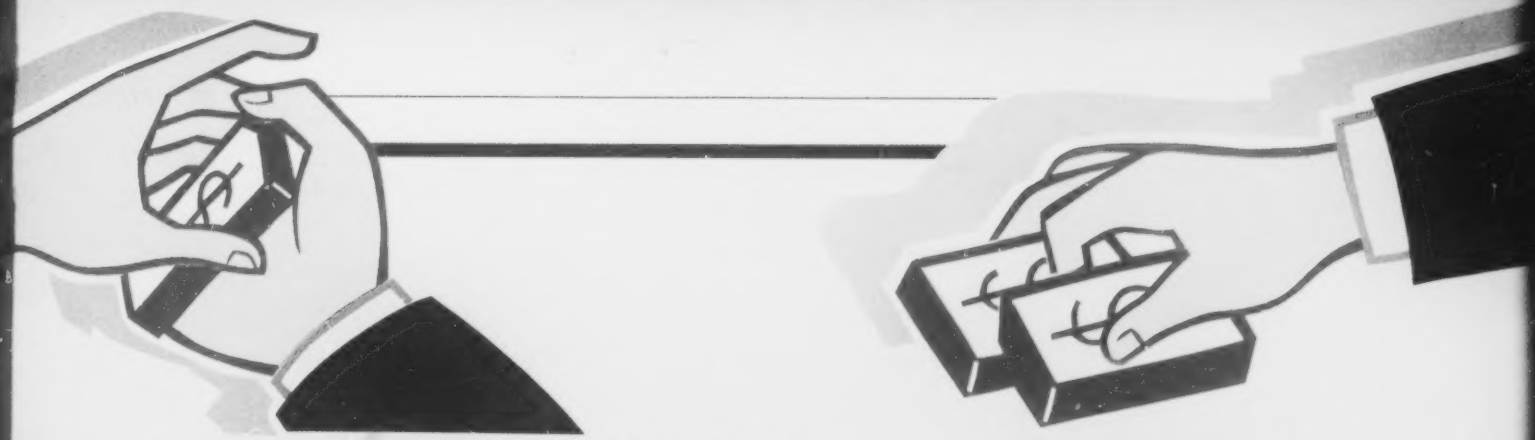


RANK	VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
10 **HILLSBOROUGH HOLDINGS[5] acquires 95% of JIM WALTER CORP.** (housing)	**$2,312,355** 200%	**Cash tender offer, September 18**	KOHLBERG KRAVIS ROBERTS FIRST BOSTON (Hillsborough Holdings)	**$35,000** **$6,000**	1.51% .26%
			SHEARSON LEHMAN BROTHERS (Jim Walter Corp.)	**$8,125**	.35%
11 **NEWMONT MINING pays special dividend**	**$2,220,574** 128%	**Cash dividend of $33 paid to stockholders as part of $2.25 billion leveraged recapitalization to fend off takeover bid by T. Boone Pickens, October 9**	GOLDMAN SACHS KIDDER PEABODY	**N.A.** **N.A.**	– –
12 **HARCOURT BRACE JOVANOVICH** (publishing) **pays special dividend**	**$2,060,130** 410%	**Dividend of $40 cash and one share of 12% preferred stock to holders of common stock and convertible debentures, as part of $2.9 billion leveraged recapitalization to fend off takeover bid by Robert Maxwell, July 27**	FIRST BOSTON	**$8,500**	.41%
13 **GOODYEAR TIRE & RUBBER repurchases common stock**	**$2,021,788** 132%	**Cash tender offer for 40 million shares (41.3%) as part of leveraged recapitalization to fend off takeover bid by Sir James Goldsmith, January 16**	None		
14 **JMB INSTITUTIONAL REALTY acquires CADILLAC FAIRVIEW** (real estate)	**$1,990,116** N.A.	**Acquisition for cash, November 2**	MERRILL LYNCH (JMB Institutional Realty)	**N.A.**	–
			GOLDMAN SACHS (Cadillac Fairview)	**N.A.**	–
15 **HEALTHTRUST[6] acquires 104 hospitals from HOSPITAL CORP. OF AMERICA**	**$1,940,000** 128%	**Acquisition for cash, preferred stock, and warrants, September 17**	DREXEL BURNHAM LAMBERT (Healthtrust)	**N.A.**	–
			BANKERS TRUST GOLDMAN SACHS (Hospital Corp. of America)	**$5,700** **$1,500**	.29% .08%
16 **SUPERMARKETS GENERAL HOLDINGS[7] acquires SUPERMARKETS GENERAL**	**$1,740,746** 374%	**Leveraged buyout for cash and debentures, October 5**	MERRILL LYNCH CAPITAL MARKETS (Supermarkets General Holdings)	**$18,000**	1.03%
			SHEARSON LEHMAN BROTHERS (Supermarkets General)	**$8,100**	.47%
17 **HANSON TRUST**(multi-industry) **acquires KIDDE**(multi-industry)	**$1,707,831** 228%	**Acquisition for cash, warrants, and equity in a spun-off division, December 30**	ROTHSCHILD INC. (Hanson Trust)	**$8,000**	.47%
			BEAR STEARNS LAZARD FRERES (Kidde)	**$11,769** **$11,769**	.69% .69%
18 **LEAR SIEGLER HOLDINGS[8] acquires LEAR SIEGLER** (aerospace, automotive parts)	**$1,706,752** 297%	**Leveraged buyout for cash, February 20**	FORSTMANN LITTLE MORGAN STANLEY (Lear Siegler Holdings)	**N.A.** **N.A.**	– –
			DREXEL BURNHAM LAMBERT GOLDMAN SACHS (Lear Siegler)	**$15,000** **N.A.**	.89% –

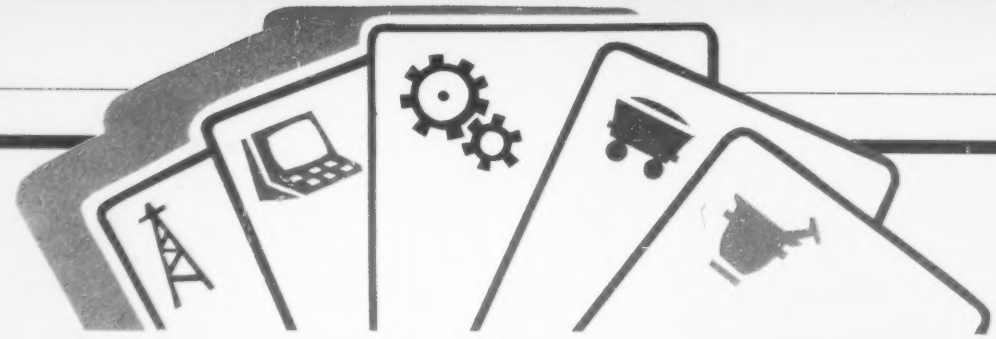
Mergers and acquisitions

Securities offerings and buybacks

N.A. Not available.
* Lead manager.
[5] Group led by Kohlberg Kravis Roberts.
[6] Employee stock ownership plan.
[7] Group led by Merrill Lynch Capital Partners and Supermarkets General executives.
[8] Group led by Forstmann Little.
[9] General Partners included AFG Industries, Cyril Wagner Jr., and Jack E. Brown.
[10] Closed-end investment company.
[11] See deal No. 4.
[12] 71% controlled by Carl Lindner's American Financial Corp.



RANK	VALUE (000) / % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
19 **IMPERIAL CHEMICAL INDUSTRIES acquires STAUFFER CHEMICAL from UNILEVER**	**$1,690,000** N.A.	**Acquisition for cash, July 22**	SHEARSON LEHMAN BROTHERS (Imperial Chemical Industries)	**N.A.**	–
			GOLDMAN SACHS (Unilever)	**N.A.**	–
20 **CONSOLIDATED RAIL sells common stock**	**$1,645,000**	**Initial public offering of 58.75 million shares, March 26**	GOLDMAN SACHS* FIRST BOSTON MERRILL LYNCH CAPITAL MARKETS MORGAN STANLEY SALOMON BROTHERS SHEARSON LEHMAN BROTHERS	**$69,913**	4.25%
21 **GENCORP** (tires, aerospace, broadcasting) **repurchases common stock**	**$1,625,000** 284%	**Cash tender offer for 12.5 million shares (54%) of common stock in leveraged recapitalization to fend off takeover bid by General Partners,[9] May 7**	FIRST BOSTON	**$6,700**	.41%
			KIDDER PEABODY	**$6,700**	.41%
22 **NUVEEN MUNICIPAL VALUE FUND[10] sells common stock**	**$1,580,000**	**Initial public offering of 158 million shares, June 17**	ALEX. BROWN & SONS* JOHN NUVEEN	**$102,700**	6.50%
23 **USAIR GROUP acquires PIEDMONT AVIATION**	**$1,562,888** 191%	**Acquisition for cash, November 5**	SHEARSON LEHMAN BROTHERS (USAir Group)	**$7,200**	.46%
			FIRST BOSTON (Piedmont Aviation)	**$6,600**	.42%
24 **HOLIDAY** (hotels) **pays special dividend**	**$1,553,514** 230%	**Cash dividend of $65 per share as part of $2.4 billion leveraged recapitalization, April 22**	DREXEL BURNHAM LAMBERT	**$17,000**	1.09%
			FIRST BOSTON	**$2,300**	.15%
25 **SOUTHLAND sells notes and debentures**	**$1,500,004**	**Offering of $350 million of 15.75% notes due 1997, $250 million of discount notes due 1997, $500 million of 16.75% debentures due 2002, and $400 million of 18% discount debentures due 2007 with warrants, to finance leveraged buyout,[11] December 8**	GOLDMAN SACHS* SALOMON BROTHERS	**$50,375**	3.36%
26 **E-II HOLDINGS** (household products, food specialties) **sells notes and debentures**	**$1,500,000**	**Offering of $750 million of 12.85% notes due 1997 and $750 million of 13.05% debentures due 1999, by holding company with 15 businesses spun off from Beatrice Cos., July 2**	DREXEL BURNHAM LAMBERT	**$54,375**	3.625%
27 **MONTEDISON** (chemicals) **buys 38.7% stake in HIMONT** (petrochemicals) **from HERCULES** (specialty chemicals, aerospace)	**$1,487,500** 350%	**Acquisition for cash from partner in joint venture, doubling Montedison's interest to 77%, September 25**	WERTHEIM (Montedison)	**N.A.**	–
			FIRST BOSTON (Hercules)	**N.A.**	–
28 **FMI FINANCIAL[12] acquires TAFT BROADCASTING**	**$1,467,379** 517%	**Acquisition for cash, broadcast and cable properties worth $200 million, preferred stock, and warrants, October 6**	DREXEL BURNHAM LAMBERT (FMI Financial)	**N.A.**	–
			GOLDMAN SACHS (Taft Broadcasting)	**$7,400**	.50%



RANK	VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
29 **SOUTHWESTERN BELL acquires six cellular telephone systems and 29 paging operations from METROMEDIA**	**$1,380,000** N.A.	**Acquisition for cash, September 30**	SALOMON BROTHERS (Southwestern Bell)	**N.A.**	–
			MORGAN STANLEY (Metromedia)	**N.A.**	–
30 **BLUE ARROW** (business services) **acquires MANPOWER** (temporary workers)	**$1,342,165** 1,019%	**Acquisition for cash, September 15**	DILLON REED COUNTY NATWEST (Blue Arrow)	**$6,000** **$6,000**	.45% .45%
			MORGAN STANLEY (Manpower)	**N.A.**	–
31 **PARK RIDGE**[13] **acquires HERTZ from ALLEGIS** (airlines)	**$1,300,000** N.A.	**Acquisition for cash, December 30**	GOLDMAN SACHS (Park Ridge)	**N.A.**	–
			FIRST BOSTON (Allegis)	**N.A.**	–
31 **SCI TV**[14] **acquires six television stations from STORER COMMUNICATIONS**	**$1,300,000** N.A.	**Acquisition for cash, completed December 1**	GOLDMAN SACHS (SCI TV)	**N.A.**	–
			MORGAN STANLEY (Storer Communications)	**N.A.**	–
31 **DUFF & PHELPS SELECTED UTILITIES**[15] **sells common stock**	**$1,300,000**	**Initial public offering of 130 million shares, January 21**	MERRILL LYNCH CAPITAL MARKETS A.G. EDWARDS & SONS J.J.B. HILLIARD, W.L. LYONS	**$91,000**	7.00%
34 **SECURITY PACIFIC** (bank holding company) **acquires RAINIER BANCORP.**	**$1,230,214** 207%	**Acquisition for common stock, August 31**	FIRST BOSTON (Security Pacific)	**$3,400**	.28%
			GOLDMAN SACHS (Rainier Bancorp.)	**$5,478**	.45%
35 **OWENS-ILLINOIS sells notes and debentures**	**$1,213,304**	**Offering of $425 million of 12.25% notes due 1996, $325 million of 12.75% debentures due 1999, $293 million of 14.5% debentures due 2003, and $170 million of discount debentures due 2003 to pay off bridge loans from leveraged buyout by Owens-Illinois Holdings,**[16] **May 21**	MORGAN STANLEY	**$37,932**	3.13%
36 **GRAND METROPOLITAN** (hotels, wines and spirits) **acquires HEUBLEIN** (wines and spirits) **from RJR NABISCO**	**$1,200,000** N.A.	**Acquisition for cash, March 6**	MORGAN STANLEY (Grand Metropolitan)	**N.A.**	–
			DILLON REED (RJR Nabisco)	**N.A.**	–
37 **CITICORP sells common stock**	**$1,165,000** 135%	**Public offering of 20 million shares, September 17**	MERRILL LYNCH CAPITAL MARKETS* CREDIT SUISSE FIRST BOSTON DAIWA EUROPE MORGAN STANLEY S.G. WARBURG SECURITIES	**$29,200**	2.50%
38 **OCCIDENTAL PETROLEUM sells common stock**	**$1,157,475** 141%	**Public offering of 37.95 million shares to reduce debt, March 4**	DREXEL BURNHAM LAMBERT* KIDDER PEABODY SALOMON BROTHERS	**$37,950**	3.28%
39 **GREAT NORTHERN NEKOOSA** (pulp, paper) **acquires forest products division from OWENS-ILLINOIS**	**$1,150,000** N.A.	**Acquisition for cash, September 1**	SMITH BARNEY (Great Northern Nekoosa)	**N.A.**	–
			MORGAN STANLEY (Owens-Illinois)	**N.A.**	–

Mergers and acquisitions

Securities offerings and buybacks

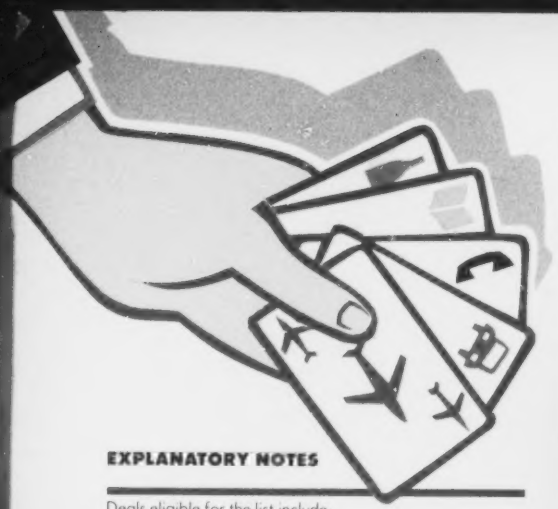
N.A. Not available.
* Lead manager.
[13] Group led by Ford Motor and Hertz executives.
[14] Joint venture formed by Storer Communications and George N. Gillett Jr.
[15] Closed-end investment company.
[16] See deal No. 3.

RANK	VALUE (000) % of book value	TRANSACTION	FINANCIAL INTERMEDIARIES (Client)	FEE (000)	FEE as % of deal
40 **MFS MULTIMARKET INCOME TRUST**[17] **sells common stock**	**$1,120,000**	**Initial public offering of 112 million shares, March 5**	WHEAT FIRST SECURITIES* E.F. HUTTON & CO.	**$67,000**	6.00%
41 **CHEMICAL NEW YORK** (bank holding company) **acquires TEXAS COMMERCE BANCSHARES**	**$1,111,978** 96%	**Acquisition for cash, common and preferred stock, and equity in a spun-off operation, May 1**	MORGAN STANLEY (Chemical New York)	**$4,500**	.40%
			SALOMON BROTHERS (Texas Commerce Bancshares)	**$6,100**	.55%
42 **BOND CORP. HOLDINGS** (beer, broadcasting) **acquires 92% of G. HEILEMAN BREWING**	**$1,094,383** 355%	**Cash tender offer, October 9**	SALOMON BROTHERS OCEAN CAPITAL (Bond Corp. Holdings)	**$7,500**	.69%
			MERRILL LYNCH CAPITAL MARKETS (G. Heileman Brewing)	**$6,875**	.63%
43 **LADBROKE GROUP** (hotels, real estate) **acquires HILTON INTERNATIONAL** (hotels) **from ALLEGIS**	**$1,070,000** N.A.	**Acquisition for cash, October 14**	MERRILL LYNCH (Ladbroke Group)	**N.A.**	–
			FIRST BOSTON (Allegis)	**N.A.**	–
44 **CENTERIOR ENERGY** (electric utility) **sells its portion of a power plant to private investors**	**$1,023,600**	**Sale, with 30-year leaseback, of Centerior's 32.3% stake in coal-burning Bruce Mansfield plant, September 30**	MORGAN STANLEY	**N.A.**	–
45 **ARGYLL GROUP** (supermarkets) **acquires UNITED KINGDOM division of SAFEWAY STORES**	**$1,015,256** N.A.	**Acquisition for cash, February 20**	FIRST BOSTON SAMUEL MONTAGU (Argyll Group)	**N.A.** **N.A.**	– –
			MORGAN STANLEY (Safeway Stores)	**N.A.**	–
46 **BURLINGTON HOLDINGS sells notes and debentures**	**$1,011,642**	**Offering of $310 million of 13.875% notes due 1996, $225 million of 14.25% debentures due 1999, $187 million of discount debentures due 2003, and $290 million of 15.25% debentures due 2003, to repay bridge loans used to finance leveraged buyout,**[18] **September 23**	MORGAN STANLEY	**$35,407**	3.50%
47 **HARCOURT BRACE JOVANOVICH sells debentures**	**$1,000,000**	**Offering of $500 million of 13.75% debentures due 1999, $250 million of 14.75% discount debentures due 2002, and $250 million of pay-in-kind debentures due 2002 to finance leveraged recapitalization,**[19] **September 18**	FIRST BOSTON	**$35,000**	3.50%
48 **TLC GROUP** (investments) **acquires BEATRICE INTERNATIONAL FOOD from BEATRICE COS.**	**$985,000** N.A.	**Acquisition for cash, December 1**	DREXEL BURNHAM LAMBERT (TLC Group)	**N.A.**	–
			MORGAN STANLEY (Beatrice Cos.)	**N.A.**	–
49 **UAL acquires HILTON INTERNATIONAL** (hotels) **from TRANSWORLD**	**$977,482** N.A.	**Acquisition for cash, March 31**	MORGAN STANLEY (UAL)	**N.A.**	–
			FIRST BOSTON (Transworld)	**N.A.**	–
50 **CAIN CHEMICAL acquires seven petrochemical plants**	**$956,000** N.A.	**Creation of new company through acquisition of plants owned by four companies**[20] **for cash, completed July 7**	STERLING GROUP	**$10,000**	1.05%

Mergers and acquisitions

Securities offerings and buybacks

N.A. Not available.
* Lead manager.
[17] Closed-end investment company.
[18] See deal No. 9.
[19] See deal No. 12.
[20] Du Pont, Corpus Christi Petrochemical, PPG Industries, ICI.



EXPLANATORY NOTES

Deals eligible for the list include:

1. U.S. public offerings of securities (except short-term securities) by domestic and foreign corporations issued under a single prospectus or offering circular.
2. Cash tender offers by domestic corporations or by foreign corporations tendering in the U.S., including those of companies buying in their own securities.
3. Mergers or acquisitions in which the buyer or seller is a U.S. company or part of one. To be eligible, offerings must be effective in 1987 and tender offers must have expired during the year. Mergers and acquisitions are eligible if legally closed during the year or, when not legally closed, if the prospective buyer has paid a portion of the purchase price in cash during the year.

The list excludes short-term financings, government securities, routine debt offerings by financial companies, repackagings of mortgage and other debt, and financings other than public offerings—such as bank borrowings and private placements.

VALUE OF DEAL

Debt assumed in an acquisition is not included in the price. Amounts for cash offerings are the total amounts raised; for tenders the total amount paid. All securities issued in acquisitions or mergers are valued at the market price on the date of closing. When two companies merge through an exchange of stock to form a new company, the company whose stockholders received the larger share of the new company is treated as the buyer, and only those shares issued to stockholders of the small company are valued.

PERCENT OF BOOK VALUE

Book value calculations indicate the price paid (or amount of equity capital raised) per share as a percentage of the shareholders' equity per share of the acquired company or issuer at the end of the last quarter preceding the transaction.

TRANSACTION

Dates under this heading are effective dates for offerings, expiration dates for tenders, and closing dates for acquisitions and mergers.

FINANCIAL INTERMEDIARIES

For underwritten public offerings, the co-managers are listed and the lead manager is indicated by an asterisk. In the case of acquisitions and mergers, the intermediaries are typically investment banking firms that assisted in the transaction.

FEE

The figures represent the amounts charged by the financial intermediaries assisting in the deals. In underwritings, part of the fee is paid to other members of the underwriting syndicate or to dealers other than the co-managers. In mergers and acquisitions, fees paid for financing services are excluded, when possible.

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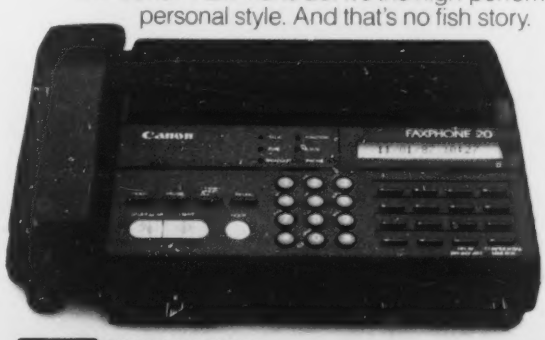
*Based on CCITT#1 Test Chart



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SPECIAL REPORT

HOW TO SMARTEN UP THE SCHOOLS

Will the education crisis torpedo U.S. economic preeminence? Business leaders, stuck with undereducated workers, fear it might. But new reforms can save the day. ■ *by Myron Magnet*

SO IGNORANT and benighted are many young recruits to the U.S. work force that one executive after another has recoiled in horror, gasping with astonishment. *These* are the troops we're supposed to win the global competition with? How can such a work force dominate the knowledge-intensive industries where the future will be made? What use are modern management techniques that draw on the worker's talents and initiative when he has no dogged, practical Yankee ingenuity to tap? And if two of every five new jobs that the Labor Department expects to be created by the turn of the century will call for more than basic skills, where will the ten million qualified workers come from to fill them? Presumably not all from Hong Kong.

Little wonder that many executives are joining the education reform movement sweeping America. They fear that if we can't count on public schools to produce workers who can read, think, calculate, and communicate, we can kiss our economic preeminence goodbye.

The failure of U.S. public education from kindergarten through high school is vast and ominous. Its most notorious measure is the plunge in College Board test performance. Combined scores on the verbal and math exams fell almost yearly from 980 points out of a possible 1600 in 1963 to a nadir of 890 in 1980, before gradually recovering to 906 by 1986. On another series of national tests, science performance of 9-, 13-, and 17-year-olds worsened steadily from 1970 to 1982, the last year for which data are available. Math performance by 17-year-olds has also deteriorated.

Comparison with other nations disheartens. U.S. eighth-graders on an international math test in 1982 answered an average of only 46% of the questions correctly, compared with top-scoring Japan's 64%. The American kids couldn't even top the average score (52%) for the 11 competing nations. Worse, the top 5% of the U.S. 12th-graders who took international calculus and algebra tests in 1982 came in dead last among the top 12th-graders of nine developed countries, squelched not only by first-ranked Japan but also by Finland, New Zealand, Hungary, and others. That 5% is the *crème de la crème*, since few enough U.S. high school seniors take advanced math at all. Contends University of Illinois education professor Herbert J. Walberg: "People often say that our best and brightest can compare with Japan's best and brightest—who only memorize. But it's simply not true."

How literate are American students—not in the sense of being able to declaim Shakespeare or write like George Will, but rather being able to understand an instruction manual or compose a comprehensible memo for the suggestion box? A congressionally mandated study found in 1984 that fewer than a fifth of approximately 2,000 11th-graders could adequately write a note applying for a summer job at a swimming pool. The average 11th-grader, who only just made it into the realm of meaningful discourse, couldn't do a wide range of writing tasks well enough to ensure he would be understood.

Not surprisingly, average young adults are weak readers and reasoners too—but the scope of what they can't do takes your breath away. Of 23,000 young adults who took a simple qualifying exam for entry-level jobs at New York Telephone, 84% flunked. A government-sponsored study estimated that only 37% of the 21- to 25-year-olds tested could be counted on to comprehend material as complex as a New York *Times* article on the downing of KAL Flight 007. Just 38% could dependably carry out such tasks as using a chart to pick the right grade of sandpaper or figuring their change from $3 if they had a 60-cent cup of soup and a $1.95 sandwich. Don't expect more than one young adult in five to read a schedule well enough to say when a bus will reach the terminal.

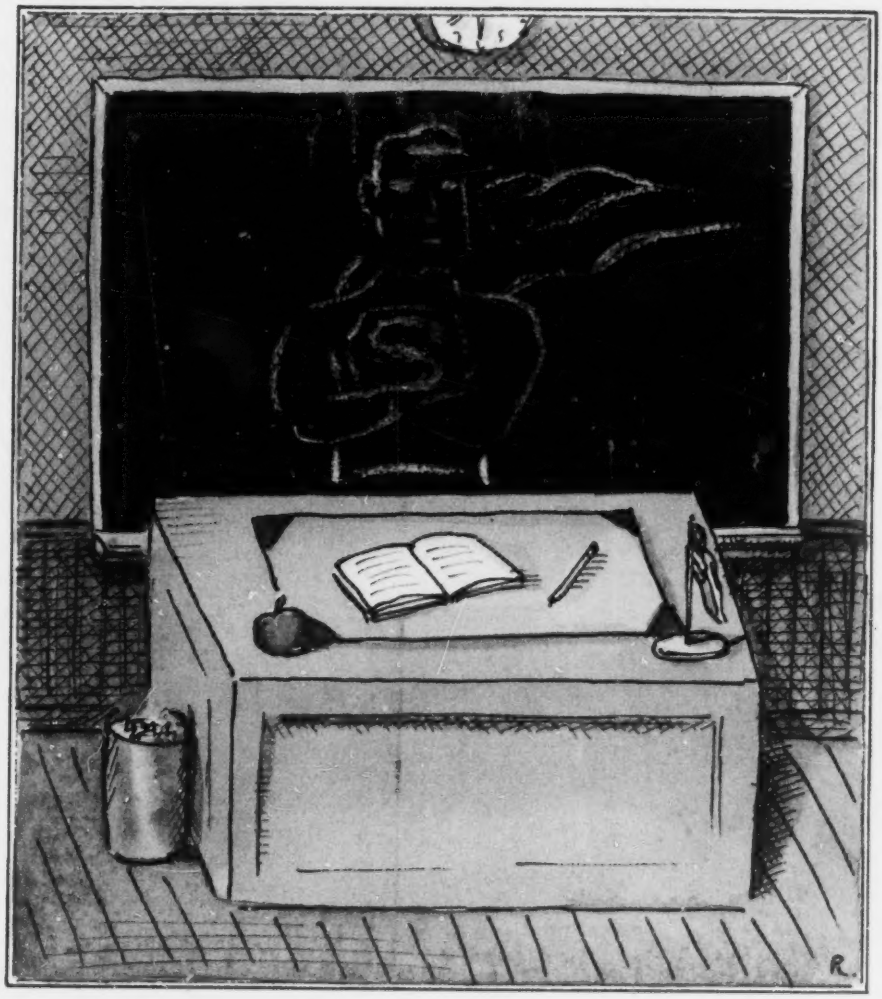
Reform leaders—executives, governors, educators, and Secretary of Education William J. Bennett and his staff—are worried not just because many young Americans lack the basic skills needed to build quality cars or even run cash registers. Many new graduates also lack a solid core of the knowledge that makes America work as a country, that common culture that turns a pluralistic hodgepodge into a unified nation without depriving anyone of his distinctive identity. They lack that modicum of political judgment, based on at least a smattering of history, that makes democracy authentic and not a masquerade. Missing too is the historical and literary knowledge that shows the vastness and variety of human aspiration and achievement, strengthening character and values and enlarging one's sense of the possibilities and worth of one's life.

HOW MUCH is missing grows dismayingly clear from a recent influential book, *What Do Our 17-Year-Olds Know?* by assistant secretary of education Chester E. Finn Jr. and Columbia Teachers College professor Diane Ravitch. Based on tests of a representative national sample of 8,000 17-year-olds, the book reports that fewer than a third of these high school seniors knew in which half-century the Civil War occurred, or what the Magna Carta is or the Reformation was, or that the Declaration of Independence is the document that marked the separation of the colonies from Britain, or that Lincoln wrote the Emancipation Proclamation. A third of them—this is not a joke—didn't know that Columbus discovered America before 1750 or what *Brown v. Board of Education* was about. A third couldn't recognize the best-known passage from either the Constitution or the Declara-

REPORTER ASSOCIATE *Rosalind Klein Berlin*

The American Pupil, 1988

ILLUSTRATIONS BY MARC ROSENTHAL



tion of Independence. Just over half knew that Stalin led Russia in World War II and—wait for it—that Russia did not invade Israel during that conflict.

Literature questions uncovered a vaster wasteland of ignorance. For these kids, the modern novel is deader than Marley's ghost: Fewer than one 17-year-old scholar in five could match Dostoevski or Conrad or James Joyce with appropriate book titles, and Hemingway and D. H. Lawrence fared little better. Since each question carried four possible answers—and "I don't know" was not among them—this is a worse result than random guessing would produce and suggests an almost militant ignorance. Fewer than half the students knew that Byron, Keats, and Wordsworth were poets.

More happily, the average student scored 68% on the Shakespeare questions and 67% on the Bible ones—poor enough, but passing grades compared with a flunking average for the tests as a whole. As for the Greek myths also central to our cultural heritage, just over half the students knew who Oedipus was or what an Achilles' heel is. Fewer than half could identify Don Quixote or the main theme of *Walden* or the author of a well-worn pair of Poor Richard's maxims.

How did America come to commit "unthinking, unilateral educational disarmament," as the Department of Education's attention-grabbing *Nation at Risk* report termed it? To begin, blame that tattered orthodoxy, "progressive" education. Repeatedly discredited, it nevertheless doesn't die, thanks primarily to the schools of education that are its life-support apparatus. Whatever

Just over half the 17-year-olds knew that Stalin led Russia in World War II and—wait for it—that Russia did not invade Israel during that conflict.

freshness might once have sparkled in its child-centered approach, its commitment to social utility and "effective living," its rejection of the tyrannies of facts and memorization, of pressure and competitiveness, that freshness has long since turned to stone.

Just one example of the aridity: the "expanding environments" social studies curriculum most schools use from kindergarten through the third grade. Proceeding like those addresses young children write that move from "Mary Jones, Elm Street" to "U.S.A., the Earth, the Universe," this program starts with the child as a family member and moves through his membership in a school, neighborhood, community, even (inevitably) a global community. The four-year sequence, says education professor Ravitch, "is virtually content-free."

For children living at the end of the 20th century—viewers of TV news, observers of modern life, some even visitors to outer space via *Star Wars* or *E.T.* on the VCR—the triviality of this curriculum anesthetizes the mind. "You belong to a family," explains a popular, representatively vacuous first-grade text analyzed by University of Georgia education professors A. Guy Larkins and Michael L. Hawkins. "Some families have two parents . . . Families do things together." Ditto for families in Canada, England, and Japan—the global approach, you see, based on the belief that if we all stress the many things we have in common instead of our supposedly unimportant differences and conflicts, there would be no wars.

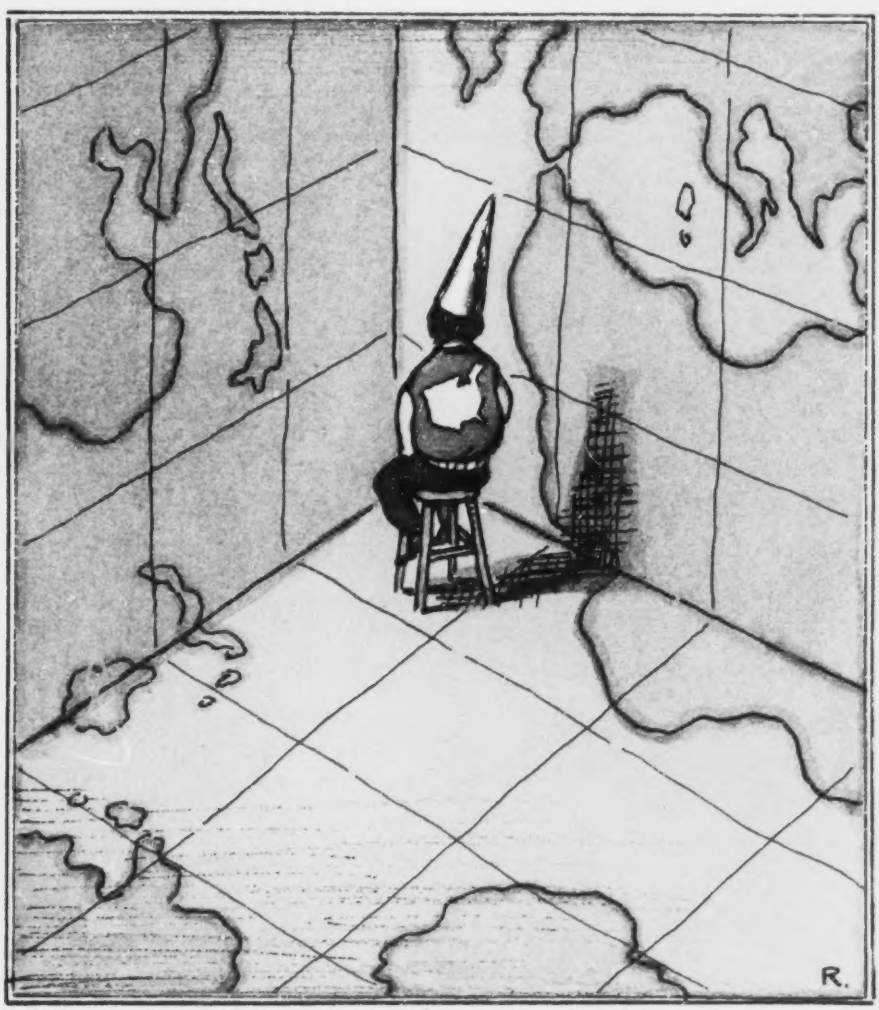
Other equally empty textbooks add that children have birthdays, birthdays are fun, and American Indians and Chinese people have them too. Third-graders—these are 8-year-olds—soporifically discover that "all communities have homes . . . buildings where people work, play, learn, and worship . . . parks where people go to have fun . . .

stores where people shop ... roads." All four grades learn how milk gets from the cow to the kitchen, each time with the same numbing simple-mindedness. When Benjamin Franklin appears in one book, it is as a Philadelphia post-office improver and college and library founder. Children aren't told he was a diplomat and nation builder, community roles evidently too heady and interesting for the environment expanders who compiled this text.

Obvious, superficial, and unfailingly boring, the Georgia professors judge, these wan texts utterly displaced red-blooded fare that put muscle on children's minds and imaginations—Greek myths, Robinson Crusoe, stories of national heroes like Washington and Lincoln, of Pilgrims, Indians, and pioneers, of heroes of legend and history from Moses and Ulysses to King Arthur and Joan of Arc. Says Diane Ravitch of this older curriculum: "Children *enjoy* it. They learn painlessly when their lively minds and their sense of romance and adventure are engaged." And they learn something other than that school is dumb.

The progressive preference for utility and "effective living" over the inspiring and instructive richness of our cultural heritage works its way all through the curriculum and powerfully shapes what high-schoolers learn, or don't learn. These days cooking and driving courses count as much toward a high school diploma as English, history, or science courses. While it's fine to teach kids to cook and drive, 13 states let high-schoolers earn at least half their graduation credits from electives like these or like Bachelor Living, where presumably they can learn condom etiquette and that communities have singles bars.

Though progressive education has been doing its work for more than 60 years, it took the upheavals of the Sixties and early Seventies to exaggerate all its tendencies and hasten the evacuation of learning from the schools. A revealing case in point: the trivialization of American history textbooks. While schoolbook publishers are used to dancing tactfully among the sometimes contradictory demands of text-buying authorities wedded to fundamentalism or secular humanism or the free market, the contentions of the Sixties overwhelmed their suavity. That became clear in a report of an expert panel



Maybe the greatest, but not the best educated

These days cooking and driving courses count as much toward a high school diploma as English, history, or science.

sponsored by the New York–based Educational Excellence Network.

With blacks, Hispanics, American Indians, other ethnic groups, feminists, homosexuals, and nuclear disarmers all clamoring for due mention of the dignity of their accomplishment or injustice of their suffering, history books have resorted to what the report calls "a kind of textual affirmative action." This often crowds out the more important parts of the story and turns texts into dead catalogues of disjointed facts or "distort[s] in order to mention and appease." In the pictures in one leading high school text, the report says, "Texas cowboys, World War I soldiers, and Civilian Conservation Corps surveyors are represented [only] by blacks. In its index, Women's Rights is a longer entry than the Revolutionary War."

Since such texts must not offend interest groups, you can guess how forceful the writing is. Deadly too is that the committees that write these books prefer thinking sociologically about communities and social classes rather than thinking in the traditional historical terms of stories filled with passion and

conflict and peopled by vivid characters whose bold or devious or wise actions change the world. So much for drama. Since the texts mustn't use too difficult a vocabulary or carry too heavy a "concept load," they end up even more vapid and colorless.

Progressive education has always tried to replace teacher authoritarianism with teacher-pupil cooperation. But the Sixties' shakeup of education reduced the distance between teacher and pupil so drastically that it fatally subverted teacher authority. Teachers lost confidence that they really knew what pupils should learn, even that they as teachers had something worth teaching. Popular songs might well contain as much wisdom and poetry as Melville, went the cant of the day, and spontaneity might be more valuable than knowledge.

At the college level, where this tendency was most pronounced, the consequence was a reduction in course requirements and admission requirements. High schools in turn reduced graduation requirements, figuring that if colleges didn't require applicants to know foreign languages or sciences for admission, maybe they weren't important. Trivial electives and texts crowded out solid fare in the name of a specious relevance, so that today, 20 years later, students read a biography of onetime teen tennis player Tracy Austin, say, instead of the life of Marie Curie or Pocahontas.

Required homework went the way of required courses. The proportion of high school seniors who did at least five hours a week declined 30% between 1972 and 1980. Says assistant education secretary Finn: "Kids tend to learn that which they study, and to learn it in proportion to the amount of study they do—and up to the level they are obliged to learn it to by the adults in their lives." Not only does less homework produce less learning, but it also fails to instill the work ethic that the U.S. economy needs. Even as teachers were demanding less from students in every way, they were inflating grades, further eroding the incentive to work hard.

Such authority as the schools left themselves the courts helped take away. Principals cannot suspend pupils without a formal hearing, the Supreme Court ruled in 1975, invoking the 14th Amendment's due-process guarantee and thereby turning school discipline from an extension of parental discipline into a quasi-adversarial proceeding on the legal model. Weeks later the Court subverted school order further by ruling that pupils could sue individual teachers and principals for damages for infringing their civil rights.

Views differ on whether busing is sound social policy, but it is hard to disagree that its educational costs have been high.

How much do you want to discipline a troublemaker who can make a federal case of it?

The Court broadly impaired learning with the forced busing that followed its 1971 *Swann* ruling. Views differ on whether busing is sound social policy, but it is hard to disagree that its educational costs have been high. In many districts race relations for years became at least as much the focus of school life as education. Angry mobs, frightened or hostile children, and policemen in school hallways did not foster an atmosphere conducive to learning. For a federal judge like W. Arthur Garrity Jr., who ran the Boston school system like a commissar for 11 years, the first priority could not be education. The white flight that busing accelerated often deprived urban schools of the most motivated pupils, whose mainstream values helped set a tone of order and relative respect for school.

Americans like to think that schools can be used to change society, but the influence goes both ways. From the Sixties onward vast social and cultural changes twisted schools out of shape. Families grew unstable, what with the increasing divorce rate and, in a small sliver of society, an emerging underclass pathology. Says University of Chicago sociologist James Coleman, author of the well-known 1966 Coleman Report on education: "Schools were never successful with children from families who didn't have a high level of educational aspirations and strong support for those aspirations." Faced with an influx of children from weak families, schools reduced their demands. They did so especially since the weak families included minority families whose advocates persuaded courts that the high failure and suspension rates among their children were evidence not of pupil shortcomings but of discrimination. Public education reduced itself to the lowest common denominator. Coleman's conclusion: "Weak families have created weak schools, which are not good for kids from strong families." Nor are they good for children from weak families, who arguably need education the most.

continued

Homework counts. Assistant secretary of education Chester Finn Jr. notes that children learn in proportion to the amount they study—so those fifth-grade test results are no surprise. The scant time U.S. kids are required to spend on homework doesn't do much to build a work ethic, either.

If U.S. education were like a run-down factory that required only a little sprucing up and modernizing, the situation wouldn't be so troubling. Instead, with the notable exception of some suburban schools and urban magnet schools, it more resembles an overgrown garden where weeds are beginning to choke out the wholesome growth and supplant it. The forces that have devastated traditional schooling have left not a vacuum but something like a new American culture that is disquietingly resistant to learning.

This culture is producing a new democratic character, minutely anatomized in Allan Bloom's *The Closing of the American Mind*, whose runaway sales attest to the surge of national concern about the bankruptcy of education. At the center of this distinctive modern American personality is a profound belief that truth and values are relative and that therefore the proper attitude toward the world is an indiscriminate openness, a willingness to accept without judging. Students learn this in part from an education whose unthinking global pluralism tells them that different cultures are all much alike deep down, that the differences don't matter, that the most divergent ways of doing and believing and valuing are equally worthy of respect. It is an openness that by making all things equal makes them equally unimportant and therefore not very interesting to learn.

Nothing else in the spirit of this age gives learning any hold on the young. They know that progress has made the past obsolete, with nothing to teach them. They are isolated in a complacent egoism fostered partly by progressive education's emphasis on the child's spontaneous feelings, partly by the emotional remoteness often engendered by the divorce of their parents or the evident impermanence of all the relationships around them, partly by an inability to attach themselves emotionally to a national community that they've been taught is no better than any other one, partly even by their omnipresent rock music's glorification of each adolescent impulse. You can certainly teach such children basics like math and science. But it will take skillful teachers, and especially teachers who are not immersed in this same culture, to get them at all fired up about the rest of our neglected cultural inheritance.

Where to start to fix this mess? The education reformers offer an array of ingenious answers, some of which have begun to sprout programs. Their first helpful idea is that everyone involved—students and especially every level of education authority—must be held accountable for student performance. This means finding out how the students really are doing and publicizing the results. Is the individual student learning what he or she is supposed to learn? Twenty-four states make sure by demanding that he or she pass a competency exam for high school graduation, and 11 states require competency exams for promotion from grade to grade. Some states are mindful that a passing grade, designed to represent minimum acceptable performance, can turn into the norm, depressing standards rather than raising them. These states keep the hurdle high.

How do the students of each school perform? Over a dozen states publish a report card that grades and compares schools, allowing taxpayers and parents to hold authorities accountable by opposing higher taxes for schools or by voting out elected administrators or by complaining to teachers and principals. In Prince George's County, Maryland, Superintendent John A. Murphy makes his 172 principals answerable for their pupils' test scores by posting in his conference room bold graphs of each school's annual scores, prominently labeled with the principal's name. Murphy's school reforms get plenty of credit for the recent economic turnaround of this racially mixed area straddling the Washington Beltway. He came into office in 1984 vowing to raise his schools' scores from the 50th percentile range nationwide to the top quarter in 1990. The goals he sets for his principals go up annually in order to meet that mark, which he thinks he will reach a year ahead of schedule.

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So far, just knowing that the boss is watching has proved incentive enough. Says he: "As in any business, if you're going to measure people to see whether or not they're performing, they're going to perform—even if you can't reward them." But he already has started talking about including principals and teachers in a bonus pay plan, based—to foster teamwork within each school—on the success of a school's test scores, attendance rates, advanced course enrollment, and so on. Making each school responsible for its own results will of course require moving authority from the central school district bureaucracy to the principal, a move education reformers urge. Says William Kristol, chief of staff to Secretary of Education Bennett: "The problem now is schools are overregulated but underaccountable. We should free up the principal and then reward him if he does well and change him if he does poorly."

Accountability also extends to school boards and school superintendents, who in a handful of states can be placed under the thumb of a state monitor in case of gross incompetence. The Department of Education has been publicizing state-by-state College Board scores, often with the enthusiastic applause of governors. Says Richard P. Mills, chief education aide to New Jersey Governor Thomas Kean: "You cannot be a governor without being an education advocate right now. If you're concerned about regional development, you have to be concerned about the quality of the graduates." Governors have also realized that education is their biggest budget item, swallowing around 40% of state revenues.

You can't get far without improving the quality of teachers. Today's talented young people rarely choose the classroom as a career, especially now that smart, ambitious women are hardly restricted to traditional "women's work" like teaching. Last year's high school seniors who intended to major in education posted combined verbal and math College Board scores of 845, 61 points below the already dismal average of all seniors. Only 58% of these prospective teachers—compared with 68% of all college-bound seniors—had chosen an academic track in high school. The rest took general or vocational programs heavy in courses of the Bachelor Living ilk.

In response, New Jersey has upped admission requirements for the education programs in its state colleges, and Missouri has set up grants and loans designed to attract into teacher-training programs students with high grades and SAT scores. Dismayed by teacher certification exams that often test little more than basic literacy, the Washington-based Carnegie Forum on Education and the Economy has organized a National Board of Professional Teaching Standards, which will issue certificates to teachers who pass the rigorous tests it is now devising. Says foun-

dation executive director Marc Tucker: "You won't need it to get a job at first, but as in every other profession, people will want a board-certified professional."

Universally contemptuous of the education major as a vapid and inadequate program, reformers agree that teachers need a four-year liberal arts education, with a major in whatever subject they plan to teach. The reformers recommend a further year or two learning teaching techniques, perhaps as an apprentice supervised by a master teacher.

New Jersey has proved that teachers educated this way can succeed resoundingly in the classroom. It hires teachers who haven't taken the usual education courses required for certification if they have a BA in the subject they want to teach, can pass the Educational Testing Service's National Teacher Exam in it, and successfully complete a year's residency, which includes a sort of pedagogical boot camp. The 800 teachers New Jersey has hired by these criteria—including retired business and military people, musicians, less well paid parochial school teachers, and recent college grads who have decided they'd like to teach—have higher SAT scores and college grades than teachers with education degrees.

Now New Jersey is trying to set up a new route to the certification of principals. Instead of three years' teaching experience and three specialized courses, you will get certified with an MBA or any master's degree in management. All you'll need to do is take a management test, go through an assessment center, and work for a year under supervision. Wall Street casualties, look across the river.

You can't attract better teachers without increasing their pay. But, says Prince George's superintendent Murphy, "taxpayers are sick and tired of giving across-the-board raises and letting those people who aren't doing the job get more and more money." After all, per-pupil education expenditures between 1950 and 1986, adjusted for inflation, more than tripled to around a breathtaking $4,000, with most of the rise coming in the period when SAT scores plummeted. But taxpayers will tolerate increased spending tied to results, like Murphy's planned performance-based bonus or like Rochester, New York's new teacher career ladder. As teachers grow in competence through four defined ranks, their pay will go up to a peak for the very best of $60,000.

Reformers like to point with fascination to the slums of Spanish Harlem, where Community School District 4 pulled itself from 32nd place out of 32 New York City school districts in test scores in 1973 to 16th today. Students reading at grade level rose from 16% to 63%. The secret: a network of elementary and junior high schools from which parents are free to choose the one they like best for their children, regardless of where they live in the district.

Each school, headed by a director without tenure, has its own distinctive twist—a focus on music or math, say, or a rigorous, traditional curriculum—and so students separate themselves into groups according to their own or their families' ambitions for their future. Each school is small enough so that students aren't anonymous. Directors of these schools make their pitches to prospective students and their parents in the spring before students enter. The market mechanism operates: Schools get better and more various by competing to offer what people want. Those that offer it successfully flourish; the others dwindle.

> Our teachers never make the most important point about education: It helps you lead a better life."

Warm fans of District 4 include some reformers who favor a voucher system for education. This would let parents send a child to either a public or an accredited *private* school, with the $4,000 or so of tax money earmarked for his education paid out accordingly. Competition would improve all the schools, these reformers say, probably correctly. The need to perform or go out of business would beat down vested interests resisting public school reform—especially the National Education Association, the largest teachers' union, which vehemently opposes merit pay, alternate teacher certification, and teacher competency testing.

But if one object of education reform is to restore a shared cultural core to Americans, the centrifugal tendency of a voucher system seems a push in the wrong direction. The system inevitably would proliferate sectarian schools and so promote separateness rather than commonality. It would be justified as a last resort only if public education were bankrupt beyond repair, or if schools bent on satisfying every interest group developed curricula that were all periphery and no core, or if children who wanted to learn were prevented from getting a decent education by a disruptive population required to attend school. Most public schools haven't reached that point, though, and the reform movement is likely to keep them from it.

A better solution is what California school authorities have been doing to the school curriculum. They have tried to come to grips with just what the core culture includes—that shared national knowledge that E. D. Hirsch Jr. defined in the title of his best-selling book, *Cultural Literacy*. The state education department has drawn up a list of a thousand mainstream books—from *Cinderella* to *Great Expectations*—that ideally children should have read or listened to between kindergarten and high school graduation. The department also has just drawn up an extensive framework for a history and social studies curriculum that will begin in kindergarten with stories about how people lived in the past and with the simplest preliminary discussions of democratic values. From grades five through 12 students will alternate each year between courses in world history and American history, moving from earliest times to the present. California's state testing program will ensure that local schools teach what these curricula prescribe.

Though the history curriculum celebrates cultural diversity, there's nothing relativistic about it; it aims to inspire a high respect for democracy. Unlike a high school in New York's Westchester County that, for fear of offending secularists, failed to tell pupils who was thanked on Thanksgiving, and defined a pilgrim as one who takes a very long journey, the California courses will deal straightforwardly with controversial or difficult issues, explaining their historical significance and outlining the current fuss over them.

Says California superintendent of education Bill Honig: "In a free country, where you have free choice, you have to choose from an educated perspective. Our teachers never make the most important point about education: It helps you lead a better life." If reformers can ensure such an education to the majority of Americans, it will be a famous victory. F